

## OPINION

## MORGANTON UPDATE

## And a salute to Stern's PPV promo skills

**R**emember Morganton, N.C.? It was the community that with great fanfare earlier this year kicked TCI out of town and set up its own municipally owned cable system. City residents, according to the mayor and other political leaders, were simply fed up with rising prices and poor service.

An election was held and a clear majority voted to support the city-owned system.

The whole snafu, which unfolded over several years, was a centerpiece of the arguments Congressional cable bashers used when they voted for the 1992 Cable Act to reregulate cable rates. Then-U.S. Sen. Al Gore, in particular, used Morganton as an example of how the big, bad cable operators were being confronted by a citizens revolt and were being recuse by the wise and caring civic leaders. This kind of response, Gore thundered, also was needed at the federal level.

Well, take a gander at this story from the Jan. 9 issue of the Morganton News Herald:

"Morganton residents are paying more than they think for cable TV, whether they receive the service or not. The Morganton city council voted in June to subsidize the new cable television system with \$1 million — or 5.7 percent — of the revenues from the city's electric system.

## Response

"At the same time the city is using Electric Fund dollars to underwrite its cable television system, it has raised city electric rates by more than 9 percent in the past four years.

"For the average residential electric customer with a monthly bill of \$65.32, the subsidy meant \$3.72 of it goes toward paying for a city-owned cable system which in fiscal year 1992-1993 ran up a deficit of \$600,000.

"Thus, even Morganton residents who don't subscribe to the city's cable system still help pay for it through their electric bills."

The response of mayor Mel Cohen when asked if the policy was fair to electric users who didn't get cable but still had to pay for it? "That's their problem," he told the News Herald.

## Subsidies

Even with the subsidy from electric fund-payers, the city was forced in December to raise cable rates to \$19 a month — a hefty \$2 more than TCI had been charging and \$3 a month more than the city had promised it would charge when the voters OK'd the municipally owned system last year.

"Without the Electric Fund

subsidy," the paper said, "the city cable rate would be up to \$21 per month."

So where are the FCC, the Consumer Federation of America, U.S. Sen. Howard Metzenbaum and all those folks who have been screaming about how cable operators have been gouging the consumer? What do they intend to do about Morganton?

Or is it the case that it's gouging when the cable companies do it, but legitimate public policy when the government is raking in the revenues?

Howard Stern is the most successful American promoter since P.T. Barnum. He uses his radio show to hype his PPV event and uses his PPV event to hype his live appearances and uses his live appearances to hype his TV show and uses his TV show to hype his book.

It works for Stern and it can work for anybody else. If the Hollywood studios would put a fraction of the promotional effort behind their PPV movies that Stern devoted to his New Year's Eve event, they would quickly boost their anemic buy rates into double digits.



## CABLE WORLD

1905 Sherman St., Suite #1000  
Denver, CO 80203  
(303) 837-0900 • (303) 837-0915 (fax)

THOMAS P. SOUTHWICK  
Publisher

PERRY ZIGLER  
Editor

BOB DIDDLEBROCK  
Executive Editor

K.C. NEEL  
Denver Bureau Chief

MATT STUMP  
National Editor

LONDON NEWS BUREAU  
80, Conspiring Rd., Flat 3  
London NW3 2LX/England  
(071) 267-3888 • (071) 284-0990 (fax)

KATE BULKLEY  
International Editor

NEW YORK NEWS BUREAU  
73 Spring St., Suite 408  
New York, N.Y. 10012  
(212) 334-1146 • (212) 334-1148 (fax)

CARL WEINSHENK  
Bureau Chief

ALAN BREZNICK  
Senior Editor  
(212) 334-1145

WASHINGTON, D.C. NEWS BUREAU  
1155 Connecticut Ave., NW, Suite 700  
Washington, D.C. 20036  
(202) 331-3710 • (202) 333-5895 (fax)

VINCENTE PASDELOUP  
Bureau Chief

CONTRIBUTING EDITORS

Domestic  
STEWART SCHLEY  
DEBBIE MARROD  
DIANNE HAMMER

Hong Kong  
NICK INGELBRECHT  
P.O. Box 11464, GPO, Hong Kong  
(852) 982-2454 • (852) 982-1118 (fax)

DONNA BRIGGS  
Associate Publisher  
63 West Main Street, Suite 1  
Freehold, N.J. 07728  
(908) 431-5166 • (908) 303-1899 (fax)

JOHN J. ROWLEY  
Account Executive • (908) 431-5166

TERESA HUYCK  
Account Executive • (908) 431-5166

JULIE M. EPSTEIN  
Account Executive • (908) 431-5166

TERESA E. HESLIN  
Account Executive/Classified • (908) 431-5

PATRICK CONNOLLY  
European Sales Manager

99 Kings Road  
Westcliff, Essex (U.K.) SS0 8PH  
(44) 702-77341 • (44) 702-77589 (fax)

MONIQUE T. MANGRUM • JACKIE HARRIS  
Finance Director • Accounting

JUDY KOLLER • PATTY KOLLER  
Circulation Director • Customer Service Manager

CAROL CUTFORTH  
Circulation Assistant

JENNY TRUAX • TRICIA HIATT  
Production Manager • Traffic Manager

CAROL CANZONA  
Operations Manager

KELLY POWELL • GINA LEFHOZ  
Staff Assistant • Receptionist

JOE H. BULLARD • Publication Design, I

BPA  
INTERNATIONAL

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December 1993

## SPECIAL REPORT

# Cable war adding players

## Low subscribers have City Cable seeing red

By **DAVIDA McLAUGHLIN**  
DAILY PRESS

PARAGOULD — Despite an estimated 10 percent growth in subscribers, City Cable remains in the red.

City Light and Water officials estimate the system needs as many as 4,500 hookups to break even, yet it shows only 3,300 subscribers.

As it stands, City Cable's net income for the year shows a loss of \$98,679 through November.

The municipally-owned cable system had a net income loss in 1992 of \$335,297 and a net income loss in 1991 of \$60,035.

Losses in 1993 were curbed by the 2.786 mills tax.

CLW comptroller Rhonda Davis, said City Cable has collected \$235,000 from the tax and is awaiting an additional \$39,000.

CLW manager Larry Watson, said he was disappointed by the shortfalls.

"This year I would have liked to have seen more growth than what we had," Watson said. "The first year we grew faster than I'd ever imagined. The second year was about what I expected."

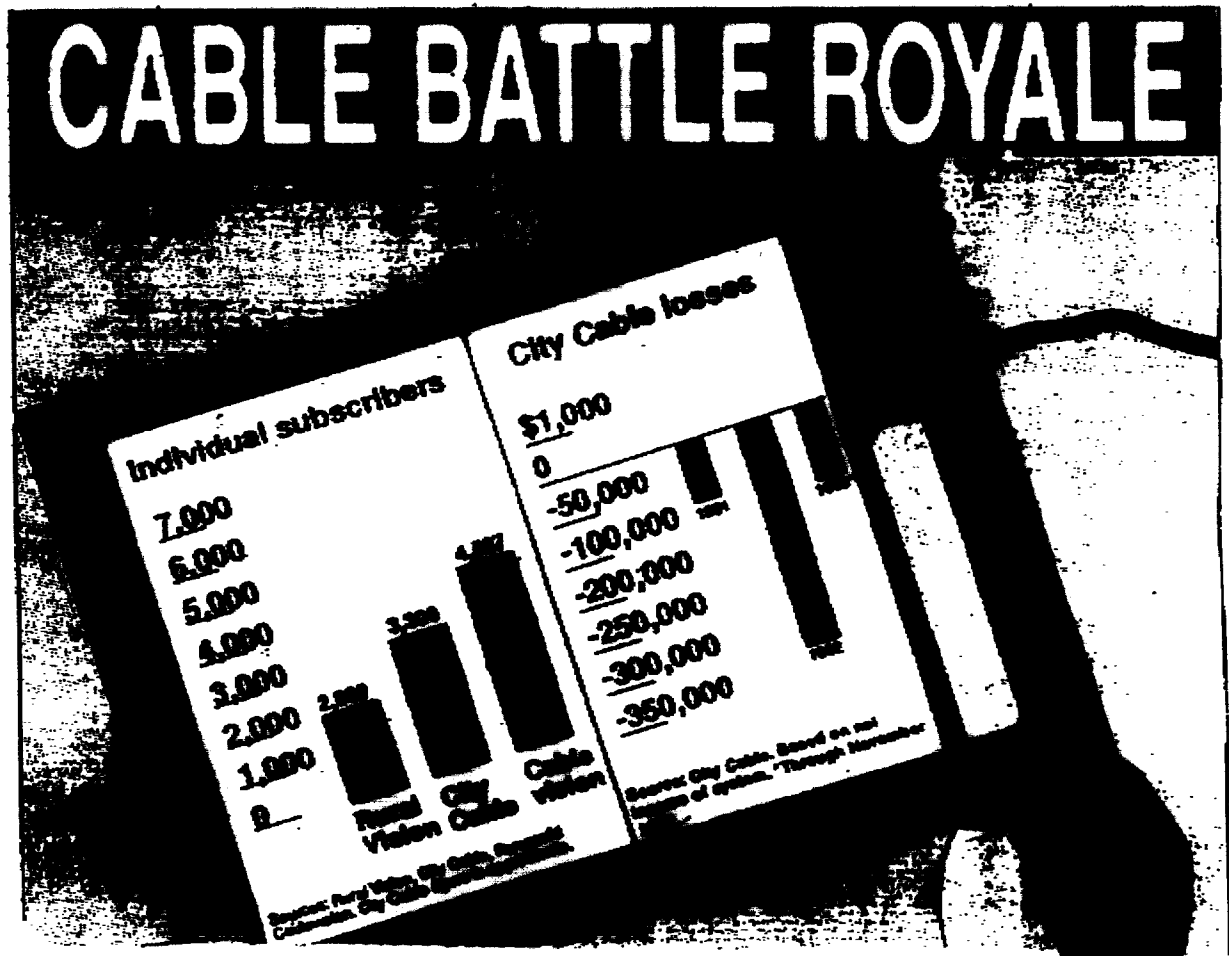
Watson said spiraling programming costs were a major contributor to City Cable's losses.

"When our expenses have gone up, naturally it takes more customers for us to break even," Watson said. "We would still like to get near 4,200 customers and try to see where we are then."

"This past year our programming costs went up dramatically and that makes it tougher all the

See CITY, page 3A

## CABLE BATTLE ROYALE



December 1993

## City Cable: Competition generates lower costs

Continued from page 1  
time in this greed industry," he said.

Davis said programming costs this year have increased by as much as 12 percent.

"When you have a 50-channel system and programming costs go up by 5, 10 or 12 percent, those percentages have a big effect on expenses," she said.

Asked how City Cable could survive in the future, Davis said the property tax may be involved in the future to cover the shortfalls.

"We need more customers. We haven't had rate increases, so unless we get a lot more subscribers, we'll eventually have to (raise the property tax)," Davis said.

"We have authorization (from voters who passed the

bid to start City Cable) to assess the 6.5 mills real estate tax," Davis said, but added the full tax would only be implemented in a "worst case scenario."

Despite the losses, City Cable contends Paragould is benefiting from the system.

"Whether you're a City Cable or Cablevision subscriber you're saving money," Davis said.

"I'm paying \$20 a year in taxes but I'm saving much more than that on my cable bill," she said.

"City Cable dropped prices in Paragould, Ark," Watson said. "We're here to help Paragould. We drum up the bands saying 'We want to provide the best service at the best cost we can.'"

# City Cable losses again result in tax assessment

Susan Mulhally Knapp  
Tribune staff

Taxpayers in Paragould will see an increase in their 1993 tax bills as a result of losses incurred by City Cable.

However, the tax is less than last year's assessment, and less than the amount that taxpayers approved when the bond issue to finance City Cable was passed.

"Each year, a portion of the tax is suspended," said Rhonda Davis, City Light and Water comptroller.

"Even with the tax, (citizens) are paying less than they paid when we had no competition."

Not so, says Richard Hale, manager of Paragould's Cablevision.

"Our rates were only \$14.50 for

basic two years ago," Hale said. "We were well below anybody in this part of the country. When you compare the math, it adds up."

Furthermore, Hale said voters were misled during the election that was held to determine if City Cable should be built.

"It was a special election, not a mandate, and only 12 percent of citizens voted," Hale continued. "It passed by a narrow margin. (Voters) were led to believe by proponents of the issue that taxes would never be imposed. I've got the ads."

Meanwhile, Davis said that the 1992 assessment was 2.786 mills. The amount of tax assessed this

See CABLE on Page 3B

THE TRIBUNE  
AUGUST 20, 1991

## CABLE

Continued from Page 1

year will be 2.25 mills on real and personal property.

According to Davis, the cost of the tax for the owner of a house valued at \$60,000 will be \$27, compared to last year's assessment of \$33.40.

On Aug. 4, First National Bank of Stuttgart notified City Light and Water manager Larry Watson of the need to implement a tax increase. The bank is the trustee of the \$3.22 million bond issue that financed the construction of City Cable.

During the month of July, City Cable revenues totaled \$72,280, while expenses were \$87,847 — resulting in a \$25,567 loss.

According to Davis, advertising accounted for \$6,836 of revenues, while rates made up the difference in the total revenue figure.

Consequently, Hale said he sees no savings, only debt.

"I see a heavy tax burden in order to maintain a redundant cable system," he said. "We think the tax is unfair. Our subscribers, as well as others, are extremely upset they're being taxed to subsidize the city's losses."

City Cable's biggest expense, according to Watson, is programming.

Programming costs, or the amount City Cable must pay to transmit the programs they offer, totaled \$34,076 in July, Davis said.

Nevertheless, Hale said that programming costs will continue to skyrocket and City Cable's losses would grow.

Presently, City Cable's subscriber rates are \$12.50 per month for its basic 51 channels. Cablevision charges \$11.50 per month for basic service.

Customers who have used Cablevision for two years receive a discount price of \$9.50.

"We'd like to get enough customers that we wouldn't need the tax," Watson said.

He added that City Cable would need 4,500 subscribers to break even, at today's costs.

Regardless, Hale said that proponents of City Cable originally said they would need only 2,800 customers to break even.

"Next," Hale said, "they said it would take 3,000 customers, then 3,500, then 4,000. The latest is that it will take 4,500. Because of increased operating expenses, I question where the break even point will be."

Watson said that City Cable had been marketed from a standpoint of service.

"We give people good service and the people of Paragould are still saving hundreds of thousands of dollars per year," Watson said.

# Hale: Competition not in city's best interest

PARAGOULD DAILY PRESS

December 1993

By **RAVINA McLAUGHLIN**  
DAILY PRESS

**PARAGOULD** - Paragould Cablevision has felt the crunch of competition for the past couple of years.

When City Cable came on the scene, Cablevision introduced a restructuring plan to contest the changes in the local market.

"In March '91 we repackaged our system. We lowered our rates and gave up on our cash flows," said Richard Hale, general manager of Paragould

Cablevision.

Hale declined to release specific information on the company's profits over the last two years stating it was against company policy. The company has 4,587 individual subscribers.

However, he said competition may not be in the long-term best interests of Paragould customers.

"Is the cheap rate war always ultimately good for the consumer?" he asked. "Ultimately I

See **CABLEVISION**, page 3A

## •Cablevision digs in for the long run

Continued from page 1  
think it could prove problematic."

Hale said the drop in profit margins will have implications on the future of the cable industry in Greene County.

The cessation of cash flows, he said, "made it extremely difficult to reinvest in the system."

A cable system requires continual upgrading to keep in step with technological advances in the cable industry. Without using profits to upgrade the system, Hale said there is a danger that customers might be short-changed.

"There is the potential to provide a 500-channel universe, interactive television and other exciting technologies that require large capital investments from within the system," he said.

"Fiber Optics, for example, can cost anywhere from \$300 to \$600 per home and you need a huge capital investment to do that," Hale said.

"What if we had a neighboring cable company offering a 500-cable universe and our consumers would be asking, 'Why can't we have that?'" he asked.

Hale said Paragould doesn't need two cable systems.

"As for City Cable, I see

continued loss and a tax burden placed on the citizenry of the county in order to subsidize a redundant cable system," he said.

Hale said the tax is unfair. "Our subscribers are taxed to support the city's losses."

He contends the Cable Act of 1990 provides rate control for customers.

"I find it ironic that one of the reasons that led to municipal competition was in order to control rates. The city has built a redundant system, they continue to lose money every month, they place a tax burden on everybody and we still don't have effective rate control," Hale said.

Under the Cable Act, a market with a single cable company is regulated by a rate formula passed down by the Federal Communication Commission.

Hale said he was unable to say what those rates would be but added, "If we were the only cable operator in the community, then we'd commit to fair rates."

"For years we've tried to provide a good service at a fair price...we're committed to this community from now on as we've always been," Hale said.

# City Cable tax draws reaction

By **DAVINA McLAUGHLIN**  
DAILY PRESS

**PARAGOULD** - City Cable has come under attack for the property tax which will again be required to make up for shortfalls in revenue.

Tuesday, City Light and Water comptroller Rhonda Davis said City Cable's revenue forecast had projected a shortfall of \$230,110 for the period Aug. 1, 1993, through July 31, 1993.

Davis said a 2.25-mill tax was needed to cover the shortfall and the tax is less than 1992's assessment of 2.786 mills.

Following Wednesday's article about the tax on the cable system, Davis said customers had called inquiring whether the proposed 2.25 mills will be added to the existing tax.

Davis said the new tax will not be added and customers will pay only the 2.25 mills.

Davis explained that each year the city is bound by the \$3.22 million bond issue used to start the city-owned system to prepare a revenue forecast for the coming year.

When the people voted to form City Cable, a 6.5-mill tax was written into the bond issue to cover shortfalls in revenue should City Cable not get enough subscribers.

According to the agreement, First National Bank of Stuttgart, the bond trustee, reviews the forecast and notifies the mayor's office of the amount of tax that must be levied.

As an example, Davis said the 1992 cable tax on a house valued at \$60,000 is \$33.40. Under the

new 2.25 mills, the tax on a house valued at \$60,000 is \$27.30.

Davis had said Tuesday the tax would be 2.275 mills. However, she said Wednesday that figure, was a preliminary figure. The final figure is 2.25 mills.

Paragould Cablevision, a privately-owned competing cable system, criticized the tax.

"Our subscribers are upset that they are taxed to support City Cable's losses," Richard Hale, general manager of Cablevision, said Wednesday.

Hale contends the city doesn't need two systems.

"The city system was built partially to control rates. Since building a redundant cable system, they have losses in excess of \$600,000. They have raised everybody's

See **CABLE**, page 3

## •Cable tax in effect for second year

Continued from page 1

taxes and continue to lose (\$20,000) to \$30,000 per month, and we still don't have rate control," he said.

Cablevision subscribers are also vocal in their objection to City Cable.

Charlene M. Shearer, of 705 South Fifth Avenue, said she was angry over the tax.

"I read the paper and threw it halfway across the room," she said, referring to the story in

Wednesday's *Daily Press*.

"I don't like City Cable and I resent paying for something I didn't vote for," she said.

Rudy Stone, of Paragould, another Cablevision subscriber, also is upset.

"It's taxation without representation," he said. "I don't like paying for running other people's TV's."

Larry Watson, manager of City Light and Water, said Wednesday,

"There's a big difference between movers, shakers and complainers." "We're the movers and shakers, they are the complainers," he said. "We're creating growth and supplying the needs of a growing city. They're sitting back complaining."

"Four months ago when there was talk about selling the system, I had Cablevision subscribers tell me they're happy we're in business because of the competition and low rates," Watson said.

THE JONESBORO SUN  
August 28, 1992

# Paragould to levy tax on cable TV system

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By STAN GRAY  
Sun Staff

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Residents of Paragould will be taxed 2.786 mills on both real and personal property for the assessed year of 1992 to make up for City Cable's revenue shortfalls and to meet the city-owned cable television system's bond payments for 1993.

However, City Light and Water officials contend that despite the tax increase, the savings in cable television subscriber rates makes City Cable a good deal for Paragould residents.

Richard Hale, manager of Paragould Cablevision, the privately-owned competing system, stated that "it's totally inappropriate for the city to use a property tax in order to compete with a business in the private sector.

"We don't think they should be able to subsidize their losses by placing a tax on the citizens in the community," said Hale.

Larry Watson, manager of CLW, said Paragould residents have saved between \$1 and \$1.5 million in cable subscriber rates, since City Cable began operating in March of 1991.

"The whole thing is if you take the national average for cable, what we would be paying here if not for the competition," said Watson. "We are saving many, many dollars over what the average tax will go up."

However, Hale said the savings is closer to \$500,000 and it's not really a savings at all — "what it really represents is borrowing ... it's going to end up costing close to \$7 million to pay off the bonds to save

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SEE PARAGOULD-2A

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## Paragould—

that \$500,000."

Rhonda Davis, CLW comptroller, said the 2.786 mill tax will amount to \$23.43 cents on a home with an assessed value of \$80,000. She emphasized that the tax will also be collected on personal property.

The tax will be collected in 1993.

In 1989, voters approved the issuance of \$3.22 million bonds to fund construction of City Cable. The ballot also called for the bond issue to be backed by up to a 6.5 mill tax.

The bond trustee, First National Bank of Stuttgart, Thursday made the determination that 3.714 mills of the tax should be suspended and 2.786 mills should be levied.

Davis explained that City Cable has a \$273,788 shortfall in revenue. The two bond payments for 1993 total \$262,617, but the bond issue requires City Cable to make 125 percent of the payment or \$328,271.

The tax was suspended last year, because City Cable had reserve funds to meet the 1992 bond payments.

Watson said City Cable is within \$13,000 of having a positive cash flow in its daily operation.

Watson said CLW's Board of Directors have said all along that City Cable will need 4,200 customers, or about 60 percent of the city's subscribers to break even.

"We felt like the first three or four years there would have to be some tax," said Watson.

Watson said the only advertisement published by the CLW board prior to the 1989 referendum was that "we would have to have 60 percent of the customers for their not to be a tax increase."

"We can do away with it next year if we can get another 1,000 customers," said Watson.

Hale said the 1989 vote represents only a small percentage of the residents of Paragould.

"Only 14 percent of the registered voters actually voted yes. That certainly was not a mandate of the voters," said Hale.

Watson said it is his understanding that Cablevision Systems Inc.,

Paragould Cablevision's parent company, plans to make an offer to the city to purchase City Cable's bond issue to end the competition.

"I don't think the people of this town want to give up the competition, to give up the savings," added Watson.

"You have to look at the total picture. When you sum everything up in a year's time ... we have served the people," said Watson.

Hale said Cablevision has "on two separate occasions offered to sit down and address the city's problems with them, but they were not receptive."

Hale did not say that an offer had been made to purchase the bonds or that an offer will be made.

Hale said Cablevision currently has 4,760 subscribers. He contended that City Cable inflates its subscribers count.

Watson stated he doesn't know how residents will respond to the additional tax. "I don't know what the people will think," he concluded.



were told that the utility is rebounding financially from the serious cash flow problems experienced earlier this year.

CLW had combined earnings of \$236,717 among the utility's three divisions in June, according to a financial statement. Watson said that the higher summer electric rates finally took effect and that CLW began purchasing power from the Grand River Dam Authority earlier this summer at lower rates. "We will continue to do well," said Watson. "We knew it was just a matter of time until it (cash flow difficulties) turned around."

Watson also reported that the utility made a profit of \$40,000 earlier this month from the sale of excess electricity to other utilities.

Shotts recommended that the utility deposit future profits from electricity sales into CLW's depleted self-insurance fund. Commissioners approved a motion for the profits to be deposited into the self-insurance fund, except in times when the money is greatly needed for operational expenses.

In other business, commissioners:

Approved an early retirement program, which could save the utility \$675,520 over the next four years in salaries if nine employees who are eligible agree to sign up for the program. Watson said federal law prohibits him from releasing extensive details about the program until after the employees have made a decision.

Agreed to amend two items in the 1992 budget to re-appropriate \$29,000 for the purchase of a backhoe to be used instead to fund a maintenance program for the city's water wells, and to purchase two new trucks for \$24,000 instead of five used trucks for \$36,000.

JONESBORO SUN  
JULY 16, 1992

## Cable-

Commissioner Dr. Mack Shotts said, "When we first went in we knew they were a large enough company to give away cable in Paragould to thwart competition."

Through the end of June, City Cable had lost \$147,456, said Watson. However, there has been \$139,000 in depreciation for a net loss of approximately \$8,000.

"We've said all along from the very start that we'll need 60 percent (4,200 subscribers) to break even," said Watson.

Watson also said that City Cable is not conducting a telephone survey.

Hale said Cablevision has "done some research recently."

Watson said the surveyors have been questioning residents on the possibility of a tax being imposed to meet the bond payments for City Cable.

"We've said all along we feel a tax is not fair," said Hale. "They can say 'You deal with us or we'll raise your taxes.'"

Watson said an independent accounting firm, Frost and Company of Little Rock, will be auditing City Cable and then First National Bank of Stuttgart, the bond trustee, will make a determination whether or not a property tax will be imposed to make the bond payments.

The bond trustee will make the determination on the tax each year during the life of the bond issue.

Also, Wednesday commissioners

# Cable competition results in savings

By STAN GRAY  
Sun Staff

City Light and Water's voter-mandated cable television system, City Cable, will not meet its goal to be "Number 1 by August 1," but the competitive situation is resulting in a savings of \$1.5 million per year in subscriber rates for Paragould residents.

Larry Watson, CLW manager,

told the utility's Board of Commissioners Wednesday morning that it appeared in May that City Cable would meet its goal of 3,800 subscribers by Aug. 1, but Paragould Cablevision, which is owned by Cablevision Systems Inc., of Woodbury, N.Y., launched a campaign selling three months of cable for 92 cents.

Cablevision's campaign also includes a \$20 gift certificate good at

various Paragould merchants and a chance to win a vacation for four to Hawaii, according to Watson.

The campaign has resulted in a net loss of 70 subscribers to City Cable, according to Watson. City Cable had 3,266 subscribers as of Monday.

Richard Hale, manager of Cablevision, told *The Sun*, "The campaign has gone well for us, although subscribers were coming back to us

before we initiated the campaign. We felt all along that the customers would base their buying decisions on who has the best price, best product and best service."

Hale said Cablevision's subscriber count stands at 4,710.

But Watson said despite the competition for subscribers, the low cable rates are good for Paragould.

"We have to look at what's best for Paragould. The people are sav-

ing \$1.5 million because of City Cable. That is \$1.5 million in revenue in the pockets of the citizens of Paragould that is not going out state," said Watson.

Commissioner Bill Brewer said it is important for City Cable to be equitable to all its customers and not offer lower rates to some customers.

SEE CABLE-11B

# Cable managers tune out prediction that FCC ruling will raise local rates

By Susan Mullally Knapp  
Tribune staff writer

Millions of Americans will pay 10 percent to 15 percent less for cable television following the Federal Communications Commission's unanimous vote to cut cable rates. The move came as a result of industry criticism from customers about price gouging by local monopolies.

Managers of the two Paragould area cable companies, City Cable and Cablevision, say they do not expect much change for local customers because of the two cable companies' existing competition.

However, the FCC adopted new rules that require programmers to make their channels available to competing cable operators at similar prices. Companies offering new services have complained of unfair discounts they say stifle competition.

"I do know it will help us in one area," said Larry Watson, manager of City Light & Water, which oversees City Cable. "It will make pro-

gramming available that we were previously unable to get. Our ESPN Sunday night football won't be shut out now."

Richard Hale of Cablevision said the rulings would not affect rates in Paragould.

"We have two systems here, and the FCC deems that competition," Hale said. "One of the factors that led to the city creating a cable company was that there was no rate control. I find it ironic that now that there are two cable companies, there is still no rate control. We find that extremely interesting."

"Why? Because since its inception, City Cable has lost a half million dollars, and they continue to lose \$25,000 to \$30,000 per month," Hale said. "They've increased taxes, as well as operating losses. They built a redundant cable system. If there were only one cable system, there would be rate control."

Not so, says City Cable superintendent Jack Brinkley.

"If there were not two separate

cable systems in Paragould," he said, "customers would have paid close to \$2 million more for cable during the last two years. We've been in business two years, and during that time we've saved customers close to \$2 million."

"While it's probably true that our books show a half million dollar loss, you have to realize that is not a cash loss. It's depreciation on equipment, buildings and materials. It's normal for city governments to show this depreciation loss," Brinkley said.

He noted that the actual cash loss per month amounted to \$3,000, not \$25,000 or \$30,000.

"The people of Paragould are way ahead," he said.

The FCC voted 3-to-0 to slash cable rates 10 percent from their Sept. 30, 1992, level and cancel any increases operators have charged since then.

Expecting the new regulations, many cable companies increased

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## CABLE

Continued from Page 1

rates 5 percent to 7 percent last fall.

Although the new rates are expected to affect 57 million people across the country, customers will probably not see any change in their bills for six months. The new rules could mean a 15 percent to 17 percent decrease in monthly cable bills for some people.

Because more than 11,000 cable systems are licensed by communities, local authorities must apply the FCC guidelines for basic service,

plus any public access cable channels.

Basic expanded service, which usually includes basic service plus satellite-delivered channels like Cable News Network, ESPN, C-SPAN, the Discovery Channel and superstations like WGN and WTBS, also will be affected by the FCC regulations. The FCC will accept complaints from consumers that they are paying unreasonable charges for that service.

Premium channels like Home Box Office or pay-per-view services are not covered.

"We will not change our basic channels," Larry Watson of City

Cable said.

Still, in many markets, the new regulations could cause the price of basic service to increase.

"What you used to call 'basic' a year ago, you'll find that to be more expensive after the rules take effect," Brinkley explained. "It will depend on the cable company, but in most towns, people pay \$22 for basic."

Officials at the FCC contend the rules will benefit customers by promoting competition. The FCC says rates in communities with no competition are 10 percent higher than in those with more than one cable company.